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Central Intelligence Agency



Washington, D.C. 20505

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4/18/85Case Conclusions to  
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Mr. James M. Frey  
 Assistant Director for Legislative Reference  
 Office of Management and Budget  
 Washington, D.C. 20503

Dear Mr. Frey:

This is in response to your request for the Agency's views on the Office of Personnel Management's (OPM) draft "Federal Employees Retirement System Act of 1985", which sets forth the proposed new retirement system for those federal employees (hired after 31 December 1983) who are covered by Social Security. We believe that OPM's proposed supplemental retirement system does not meet the Agency's needs and would have a detrimental impact on the Agency's ability to effectively undertake and fulfill its mission. We have difficulty with this supplemental proposal given its establishment of a defined contribution rather than a defined benefit plan, and given the uncertain retirement benefit levels and higher eligibility ages for newly hired Agency employees established by the proposed plan. The proposed supplemental plan also would encourage, through its portability, a transient Agency work force which would be inconsistent with the stable personnel structure that, ~~from a security standpoint,~~ is required to carry out the Agency's mission.

Mr. Casey, in his two earlier letters of 11 and 18 March 1985, has addressed how the effectuation of the Agency's mission requires continuation of the present CIARDS and Civil Service Retirement System (CSRS) programs for CIA employees. As Mr. Casey states in his 18 March letter, this concern that the Agency remain free to administer retirement programs for its employees extends beyond the Administration's proposals addressing retirement reform and includes the supplemental retirement plan currently under consideration here. For the reasons set forth in Mr. Casey's letters and further described below, we believe that it is important that the Agency be allowed to administer its own plan for newly hired individuals on a basis similar to that available to Agency employees participating in CIARDS and CSRS.

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In earlier discussions between this Agency and OMB, the Agency made the point that CIARDS should be included among those systems which will continue to provide early retirement and that Agency CSRS participants also should be considered for inclusion (at age 55) in this same group. For the reasons set forth in Mr. Casey's above letters, the ability of Agency employees hired after 31 December 1983 to retire at comparable ages and with similar benefits as employees participating in CIARDS and CSRS also must be ensured. The polarizing effect that different age eligibility requirements and benefit levels would have on the Agency would be dramatic and would impair the Agency personnel system which encourages a stable career cadre through the provision of an attractive career track and guaranteed ~~defined~~ retirement benefits.

Also of concern to the Agency is the possible disparity in benefits that would be provided individuals under existing CIARDS or CSRS programs and those afforded participants under this OPM supplemental plan. Our preliminary estimates raise some question about the adequacy of the benefits provided under this defined contribution plan. One of the principal inadequacies of the proposed OPM supplemental plan is, in fact, its failure to provide any comparative data or analysis that estimates what annuity levels or benefits would be provided under the plan for qualified individuals once they reach retirement age at 59 1/2. Our estimates indicate that the proposed defined contribution plan could fail to provide as much as half of the benefits currently available under either CIARDS or CSRS. We believe a much more meaningful review of the OPM proposal would be possible if a supporting cost analysis was provided setting forth estimated benefit levels for participants under this defined contribution plan.

Beyond the possible disparity between benefits provided under the proposed defined contribution plan and current retirement programs, the Agency is also concerned about the high portability feature of the proposed plan and its potentially damaging effect on the Agency's personnel system. *Our experience indicates that* ~~The inherent security of a defined benefit retirement program is essential to~~ *in attracting and* retain Agency employees on a long-term basis. A defined benefit program not only ensures a guaranteed and certain level of return to Agency employees, but also increases their incentive to remain with the Agency by tying the level of retirement benefits to the length of an individual's government service. The proposed defined contribution plan makes it much more difficult to offer employees an attractive career track which encourages long-term service with the Agency in return for guaranteed retirement benefits. For the reasons outlined by

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Mr. Casey in his earlier correspondence, the inherent security risk associated with the transient work force makes such portability highly undesirable from the Agency's standpoint. The defined contribution feature of the plan is particularly troubling since the original statute extending Social Security coverage to federal employees does not require such a plan to replace the present defined benefit programs. In the absence of any legal mandate requiring this defined contribution plan, we would hope that furtherance of the Agency's unique mission will be encouraged by permitting the Agency to administer a guaranteed defined benefit retirement program for its new employees similar to CIARDS and CSRS.

The potential disparity between benefits provided under the proposed defined contribution plan and current retirement programs is apparently intended to be offset by the voluntary Federal IRA feature of the supplemental plan. We believe this reliance on the Federal IRA as a means to compensate for the apparent lower annuities provided by the defined contribution plan may be over-estimated for lower level Agency employees. This IRA feature is based on the assumption that government employees will have \$5,000 of disposable income a year to invest in the new proposed Federal IRA. The Agency's own experience with a voluntary investment program of this type indicates that average government employees may be unable or reluctant to take advantage of this IRA proposal through the investment of such substantial sums. The Agency's own Voluntary Investment Program is comprised typically of individuals in GS-12 slots or above, the vast majority of which are 40 years or older, and whose average deposit in such an account is less than \$1,000 per year. Dependence on this voluntary IRA will not, in our view, result in providing many government employees with a living annuity when combined with the reduced defined contribution benefits set forth in the supplemental plan. Moreover, the morale and administrative problems that would be generated in having Agency employees eligible to retire at disparate ages with different benefits that depend upon their participation in a particular plan, or their ability to voluntarily contribute to such a plan, would be ~~be devastating to~~ <sup>adversely impact</sup> the performance of Agency activities. The adverse effects of such a bifurcated retirement system on the Agency's operation are fully described in Mr. Casey's letter of 18 March.

We also believe that the significantly reduced survivor benefits provided by the OPM proposal would be inadequate to meet the Agency's needs. Survivor benefits are of considerable importance to Agency employees given their frequent service in hazardous areas involving the risk of terrorist attack. The

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willingness of Agency employees to undergo such risks would be significantly reduced if this considerable reduction in survivor benefits is permitted.

In light of the above, we continue to believe, as stated by Mr. Casey in his earlier letter, that the mission of the CIA requires that age eligibility requirements and retirement benefits for newly hired employees be comparable to those provided individuals (under CIARDS and CSRS) beside whom they work on a daily basis. Because the OPM proposal fails to adequately address either of these two basic concerns, we must oppose its submission to Congress as the Administration's proposal for a supplemental retirement program.

Sincerely,

*we hope our comments to in the OPM proposal  
will be helpful in ~~the~~ designing the supplemental program,  
and we will be happy to*

Charles A. Briggs  
Director, Office of Legislative Liaison

*to discuss  
an alternative  
suggestion  
on this  
matter  
with  
you.*

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